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SUBJECT: KOSOVO CELEBRATES SECOND ANNIVERSARY WITH SUCCESSES AND CHALLENGES

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SENSITIVE BUT UNCLASSIFIED - PLEASE PROTECT ACCORDINGLY.

¶1. (SBU) SUMMARY: Kosovo celebrated the second anniversary of its independence on February 17. These two years have seen political stability that has allowed the country to create legitimate new institutions, including the Constitutional Court and the Kosovo Security Force, and to start fulfilling its Ahtisaari Plan obligations, such as decentralization. Challenges remain, and Pristina and the international community must focus on moving the country towards eventual membership in the Euro-Atlantic institutions that will act as a guarantor of Kosovo's viability and security. Progress towards European Union membership and a role within NATO will require a concerted focus on building institutions, strengthening the country's system of justice, protecting its multi-ethnicity, and developing its economy. In each of these fields, Kosovo has been active in laying foundations for progress. However, we cannot ignore that work remains. Political parties need to move beyond their regional bases for support and cooperate better in pursuit of national goals. The GOK, with more effective support from EULEX, needs to build on its initial reforms in the justice sector and intensify its anti-corruption efforts. Pristina, with the help of the international community, wants to replicate the success of decentralization in southern Kosovo that empowers Serb communities and extend the same hope to northern Kosovo, where Belgrade maintains an illegal stranglehold on municipal governance. The GOK must use its string of economic reforms and privatizations as a springboard to motivate private-sector growth. Eventual membership in the European Union and other Euro-Atlantic institutions will mitigate the challenge that Kosovo's small size poses. The largest threats to this agenda come both from Belgrade and the risk that Brussels will not use its influence there to compel Belgrade's greater cooperation in allowing Kosovo to develop and strengthen. END SUMMARY

KOSOVO AT TWO YEARS

¶2. (SBU) The Republic of Kosovo turned two years old on February 17. It has been two years marked by a number of successes. Most notably, we have seen peace and government stability. Kosovo has taken responsibility for ensuring its own democracy with elections that it ran on its own for the first time since the end of the

conflict. Serbs in southern Kosovo participated in these elections and are starting to accept that their survival runs through Pristina's rather than Belgrade. More Serbs, in fact, cast ballots in Kosovo's municipal elections in November 2009 than in the illegitimate parallel elections for local Serbian institutions that took place throughout the year. New institutions, like the Constitutional Court, are standing up and starting to earn respect as legitimate bodies. Internationally, Kosovo has secured membership in both the World Bank and the International Monetary Fund, and recognitions of Kosovo's independence now stand at 65 countries. At the International Court of Justice, Kosovo (supported by many in the international community, including the United States) presented a strong case to challenge Belgrade's contention that the country's independence fails to accord with international law, and we expect that even an ambiguous opinion from the Court will open the door for more states to recognize the country's independence.

¶3. (SBU) In short, Kosovo has much to celebrate on its independence day. We must not forget, however, that Kosovo is a nascent state that still confronts challenges. Its stability is laudable, but its political scene is fractious as inexperienced political parties tend to elevate narrow interests above national goals. The legacy of conflict and socialism has weakened its institutions, and its economy remains a work in progress. Kosovo continues to look to the international community for guidance, and it sees in this advice a path that will lead to eventual membership in the Euro-Atlantic community of nations, an end-goal that will act as a guarantor of the country's independence, viability, and stability. In helping Kosovo ultimately realize both European Union and NATO membership, we need to focus our efforts in fostering the state's institutions, developing the rule of law, promoting its multi-ethnicity, and strengthening its economy.

BUILDING INSTITUTIONS

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¶4. (SBU) Kosovo's two largest parties -- the Democratic Party of Kosovo (PDK) and the Democratic League of Kosovo (LDK) -- have coexisted in stable government since national elections in November 2007. This stability has allowed the GOK to focus on several post-independence institution building projects: embarking on decentralization, standing up the Kosovo Security Force (KSF), and creating the Constitutional Court, among others. The results have been positive. We have seen Serbs turnout in large numbers to elect Serb candidates for mayor and municipal assemblies in the new, Ahtisaari-mandated, Serb municipalities. The KSF has broken ties with the legacy of the Kosovo Liberation Army and is showing a commitment to becoming a multi-ethnic force with its new pan-Kosovo recruitment campaign. The Constitutional Court has earned legitimacy as the final arbiter of elections-related disputes.

¶5. (SBU) The stability allows us to focus on critical economic projects -- like the New Kosovo Power Plant and the privatization of the state telecom, Post and Telecom of Kosovo -- with a stable government partner focused on work rather than campaigning. It also gives us time to encourage Kosovo politics to move beyond its post-conflict paradigm, when all parties focused on independence to the exclusion of other considerations. Left-right policy dimensions do not yet exist here. The large political parties have not yet developed policy platforms that extend beyond reaffirming promises to their core supporters. The LDK still sees itself as the standard-bearer for late President Ibrahim Rugova. The PDK and the Alliance for the Future of Kosovo (AAK) are outgrowths of the KLA and continue to appeal to regional support bases. These lingering identities too often obfuscate priorities and encourage leaders, at times, to forget that national interests must take precedence.

IMPORTANCE OF THE RULE OF LAW

¶6. (SBU) On February 16, President Sejdiu appointed new Supreme Court judges and prosecutors. This action builds on a years-long, continuing process of vetting for professional competence judges and prosecutors. The vetting process involves both Kosovo and

international community arbiters, and the GOK's full acceptance of the results shows a commitment to developing an independent judiciary that will start to fill the gaps that exist in Kosovo's rule-of-law institutions. A similar process of interviews and testing went into the selection of the Constitutional Court justices last year, and we have seen this court grow in legitimacy over the past several months. It has already had its own minor *Marbury v. Madison* moment, exercising unchallenged authority over legislation that controls the funding of the state radio and television broadcaster. Although the ruling has invited critics and controversy, none of these critics has questioned the role that the Court has played. This is a significant step in shoring up the independence of the country's judicial institutions.

¶17. (SBU) There remains a need for more progress. In January of this year one of Kosovo's most widely read newspapers noted in an editorial that Kosovo's system of justice needs deep reform. The GOK, too, recognizes that it faces a challenge in developing its legal institutions, and the Prime Minister has adopted a legislative strategy for the year that prioritizes the rule of law. It is a strategy that will modernize and reform the court structure, invigorate the country's prosecutorial ranks, and create an institutional foundation where objectivity has an opportunity to flourish. Concurrent with this legislative strategy, the GOK -- with more active assistance from EULEX -- will need to strengthen its anti-corruption efforts, a difficult challenge in a country this small, where businesses often claim a political patron. Despite the inherent difficulties, our institution-building efforts must prioritize the rule of law and the fight against corruption. The public needs to feel confident that laws apply to everyone. EULEX needs to step up its activity and deliver long-promised arrests of high-ranking corrupt public officials, or we run a risk that our rule-of-law reforms will fall flat and leave the public with a perception that the government is little more than a kleptocracy.

A MULTI-ETHNIC STATE

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¶18. (SBU) Kosovo has made a strong start in fulfilling its promises under the Ahtisaari plan to empower Serb communities. Serb mayors, following municipal elections in November 2009, now hold office in the new municipalities of Gracanica, Klokoč, and Ranilug. In Strpce, a pre-existing municipality where the Serb majority refused to participate in the November 2007 elections, a new legitimate Serb mayor has taken significant steps to undo the influence of the illegal parallel municipal government that answers to Belgrade. In Pristina, the central government is devolving more authority to all municipalities, giving local residents a louder voice in shaping their communities' future. Most refreshing is that the GOK continues to focus on these Serb communities, providing them with significant new resources in the 2010 budget that will allow them to strengthen the new municipal structures and develop their infrastructure.

¶19. (SBU) In northern Kosovo the challenges surrounding integration are greater. Belgrade's legitimacy outstrips Pristina's in the northern municipalities of Leposavic, Zubin Potok, and Zvecan, but it may not be as unchallenged as Belgrade would like us to think. A municipal preparation team (MPT) is now working in the planned new municipality of North Mitrovica, which will hold a special election later this year to select its inaugural government. This MPT is the GOK's first step in building on the success of its decentralization efforts in the South. It has adopted a comprehensive approach to the North that entails an incremental "hearts and minds" campaign to win greater support from northern Serbs to work with Kosovo institutions. The illegal parallel institutions that control the North are little more than fronts for organized crime, and the region has become stagnant. The Serbs north of the Ibar River consistently point to the absence of the rule of law there, and this could prove to be the tool that begins their acceptance of Pristina -- if the GOK and EULEX, together, can make meaningful progress in shutting down the criminal networks that dominate throughout the North. Pristina can offer hope, but it cannot achieve success on its own. The Europeans need to contribute. EULEX needs to crack

down on organized crime, and Brussels must use the lure of EU integration to compel Belgrade to play a helpful role in returning law and order to northern Kosovo. Pristina cannot return hope to the North if the international community will not stop Belgrade from interfering in the region's development.

ECONOMIC REFORMS AND PRIVATE SECTOR GROWTH

¶10. (SBU) At the central level Kosovo has laid a strong foundation for economic reforms. In recent months the Assembly has adopted a debt law that sets rational limits on the amount of debt that the country can incur and should allow Kosovo to pursue a sovereign credit rating that will permit it to finance its development. The IMF has provided guidance on a Central Bank law that will both strengthen the institution and open opportunities for more development assistance. And, the GOK is demonstrating an ever improving control of its budgetary process, delivering a comprehensive and reasonable 2010 budget to the Assembly that prioritizes critical needs. Amid these steps, privatization continues. The GOK hosted a pre-bid conference for representatives from three pre-qualified consortia interested in entering into a public-private partnership for the Pristina Airport which we expect will attract a 100 hundred million Euro investment, with a contract awarded in April. Further cause for optimism is on the near horizon with the upcoming privatization of the Kosovo Energy Corporation and development of a new 500MW power plant that will put an end to the rolling blackouts that still affect the country. When this plant comes online, industry will find a more inviting environment for setting up business.

¶11. (SBU) These important steps do not mask Kosovo's current economic woes that leave many Kosovars without work. With an unemployment rate of greater than 40 percent, the economy is suffering. There is little industry, the private sector is underdeveloped, and the country's greatest natural resource -- lignite -- is underutilized due to a dilapidated power infrastructure. At present, the government remains the primary

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engine that drives the economy, a model that is not sustainable. Government contracts for road-building projects help to provide temporary employment, but they do not offer the longer term economic stability that the country requires. In the coming years, both the government and the international donor community need to redirect their efforts towards projects that will spark greater dynamism and diversity within the private sector. The central reforms that have occurred -- and will continue throughout the rest of the year -- provide hope that Kosovo will soon feature a strong economic framework where private sector growth will necessarily follow.

EURO-ATLANTIC INSTITUTIONS

¶12. (SBU) Kosovo's small size presents a challenge for its survival, a challenge that the international community can help surmount with its Euro-Atlantic institutions. The lure of these institutions -- in particular, the European Union and NATO -- are tantalizing opportunities that focus the attention of the GOK. With a small population where family and klan ties provide dominant affiliations, Kosovo is susceptible to corruption that will retard development. On the security front, Kosovo is currently a NATO protectorate, but those forces are beginning to withdraw, and Kosovo leaders are wondering whether or not the small (no more than 2500 active members according to the Ahtisaari Plan) and lightly armed Kosovo Security Force (KSF) can fill the void that KFOR will leave. The antidote for both of these problems is membership within the European Union and NATO, and this Euro-Atlantic orientation is the primary issue that unifies the country's dueling political forces around a core national vision.

¶13. (SBU) Prime Minister Thaci, daily, expresses his commitment to readying Kosovo for EU consideration, and he regards the next European Union Progress Report on Kosovo, due in June, with a mix of anxiety and optimism. He wants to show the electorate that his leadership is bringing Kosovo closer to Brussels, and he wants to be

the person who brings EU visa liberalization to Kosovo. Over the longer term, the country needs EU membership as an outlet for its young workforce and as a unified market for exports. It also needs to define its future relationship with NATO. Every Kosovar desires full membership in an institution second only to the United States in the hagiography of Kosovo's recent history. The limitations that the Ahtisaari Plan places on the Kosovo Security Force are going to prove contentious over time, especially once KFOR withdraws completely. Without an agreed and viable connection to NATO, we run the risk that unofficial militias will again develop out of fear that the country is unable to defend itself from aggression.

COMMENT:

¶14. (SBU) Kosovo's independence has been a success story. The worst fears -- large scale population movements and outbreaks of violence -- following February 17, 2008, never materialized. The political scene, while fractious, works together on the big issues, like decentralization and establishing new institutions. The international community and the Kosovars, themselves, can feel good about the positive steps that have occurred over the past two years, but we cannot ignore the challenges that remain. With each passing day we need to see the GOK take more responsibility for securing the country's future -- more activity on lobbying for recognitions, more temperate political debate, greater respect for the rule of law, and a concerted focus on national interests -- but there remains an ever present role for the international community. Pristina cannot yet extend its authority across its entire territory. The International Steering Group on February 8 gave its blessing to a comprehensive approach that will bolster Pristina's presence in the North, but this approach will also require international support. Indeed, each of the steps towards Kosovo's eventual membership in the European Union will require international attention, and we need to make sure that Brussels gives Pristina the same consideration that it pays to Belgrade. Above all, the progress that Kosovo makes in overcoming the challenges it confronts should play the determining role in the country's qualifications for European Union and NATO membership. We need to keep the GOK's focus squarely on its responsibilities while reminding our European partners that they too have a role to play.

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END COMMENT